

## Summary of Consolidated Financial Statements for the Second Quarter of the Fiscal Year Ending March 31, 2022 (Japanese Standards)

This document is an English translation of the Japanese-language original. All financial information has been prepared in accordance with accounting principles generally accepted in Japan.

Company Name:	GUNZE LIMITED
Company Code:	3002
Stock Market Listings:	Tokyo
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Filing of Quarterly Securities Report ( <i>Shihanki hokokusho</i> ) (Scheduled):	November 12, 2021
Start of Distribution of Dividends (Scheduled):	—
Preparation of Supplementary Materials for the Quarterly Financial Results:	Yes
Holding of Presentation of Quarterly Financial Results:	Yes
	(for institutional investors/analysts)

### 1. Consolidated results for the second quarter of FY2021 (April 1, 2021 to September 30, 2021)

#### (1) Consolidated operating results (cumulative)

(Amounts less than one million yen are omitted)

(Percentages represent year-over-year changes)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Six months ended Sept. 2021	59,391	—	3,340	—	3,771	—
Six months ended Sept. 2020	58,067	(18.2)	1,271	(61.4)	1,484	(55.8)

  

	Net income attributable to owners of the parent		EPS	Diluted EPS
	¥ millions	%	¥	¥
Six months ended Sept. 2021	5,002	—	285.63	284.79
Six months ended Sept. 2020	222	(89.7)	12.56	12.51

Note: Comprehensive income

Six months ended September 2021: ¥4,740 million [—%]

Six months ended September 2020: ¥2,597 million [104.8%]

Note: GUNZE has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other related standards effective from the beginning of the first quarter of the current fiscal year. As such, the figures for the six months ended September 30, 2021, shown above, represent amounts after the application of the said accounting standard and other related standards, and year-over-year increases/decreases (%) are not provided.

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ millions	¥ millions	%	(¥)
As of September 30, 2021	160,100	116,565	71.6	6,612.62
As of March 31, 2021	159,629	115,178	71.1	6,419.62

Reference: Total equity

September 30, 2021: ¥114,679 million

March 31, 2021: ¥113,554 million

Note: GUNZE has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other related standards effective from the beginning of the first quarter of the current fiscal year. As such, the figures for the six months ended September 30, 2021, shown above, represent amounts after the application of the said accounting standard and other related standards.

## 2. Dividends

	Annual dividends per share (¥)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full year
FY2020	—	—	—	115.00	115.00
FY2021	—	—	—	—	—
FY2021 (projected)	—	—	—	140.00	140.00

Note: Revisions to dividend projections most recently announced: No

## 3. Projected results for FY2021 (April 1, 2021 to March 31, 2022)

(Percentages represent year-over-year changes.)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
FY2021 full year	127,000	—	7,000	—	7,200	—

	Net income attributable to owners of the parent		EPS
	¥ millions	%	¥
FY2021 full year	5,600	—	321.21

Note: Revisions to projections of consolidated financial results most recently announced: Yes

GUNZE has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other related standards effective from the beginning of the fiscal year ending March 31, 2022. As such, the projected results, shown above, represent amounts after the application of the said accounting standard and other related standards, and year-over-year increases/decreases (%) are not provided.

## Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries during the period accompanied by changes in the scope of consolidation): No
- (2) Application of specific accounting practices for preparing quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and restatement after error corrections
  - (a) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
  - (b) Changes in accounting policies due to other reasons: No
  - (c) Changes in accounting estimates: No
  - (d) Restatement after error corrections: No

Note: For details, refer to “(3) Notes to Quarterly Consolidated Financial Statements – Changes in Accounting Policies” in “2. Quarterly Consolidated Financial Statements and Main Notes” on page 15 and 16.

- (4) Number of shares issued and outstanding (common stock)
  - (a) Number of shares at the end of period (including treasury stock):
    - 2nd quarter of FY2021: 19,293,516 shares
    - FY2020: 19,293,516 shares
  - (b) Treasury stock at the end of period:
    - 2nd quarter of FY2021: 1,951,001 shares
    - FY2020: 1,604,826 shares
  - (c) Average number of shares during the period (cumulative quarterly period):
    - 2nd quarter of FY2021: 17,512,340 shares
    - 2nd quarter of FY2020: 17,759,997 shares

Note: This summary of consolidated results is exempt from the quarterly review procedures.

### Notes regarding the use of projections of the results and other matters

Projections of results and future developments are based on information available to the Company at the current time, as well as certain assumptions judged by the Company to be reasonable. Various factors could cause actual results to differ materially from these projections. For the assumptions that form the basis of the projected results and notes regarding the use of projections, see (3) “Description of Consolidated Financial Forecast” of “1. Qualitative Information on Quarterly Financial Results” on page 6 and 7 of attached materials.

## Attached Materials

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## 1. Qualitative Information on Quarterly Financial Results

GUNZE has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other related standards effective from the beginning of the first quarter of the current fiscal year. Because the accounting treatment for revenue for the period under review is different from that used for the same period of the previous fiscal year, year-over-year increases/decreases (%) compared to the same period of the previous fiscal year are not provided in the description of results of operations.

### (1) Description of Results of Operations

(Results of operations during the first six months ended September 30, 2021)

Reviewing Japan's economic condition during the first six months of the current fiscal year (April 1 – September 30, 2021), the economy remained in a severe situation mainly due to the resurgence of COVID-19, which placed substantial restrictions on both personal consumption and corporate activities. This situation arose out of the Japanese government's reissuance of the declaration of the state of emergency. Although economic activities are expected to normalize in line with the ongoing progress of COVID-19 vaccinations, the outlook remains uncertain due to concerns over a possible rebound and respreading of the infection, as well as soaring oil prices and disrupted supply chains, which can cause price hikes.

In this final year of the second phase of the GUNZE Group's medium-term management plan, “CAN 20” (the period of the second phase of “CAN20” was extended by a year, due to the heavy impact of the COVID-19 pandemic on the group's business), the GUNZE Group promoted three pivotal strategies based on the key concept of “Focus and Concentration.” These are: implementation of segment-specific business strategies, creation of new businesses, and reinforcement of the management foundation.

Although the adverse impact of COVID-19 lingered, in GUNZE's functional solutions business, all the divisions were on track for recovery. By contrast, in the apparel business, in-store sales remained sluggish due to the redeclared state of emergency, and the improved performance of the other channels was insufficient to offset the slump in this channel. The lifestyle creation business was heavily affected by temporary closures and shortened business hours of shopping centers and sports clubs.

Consequently, the GUNZE Group's consolidated net sales for the first six months of the current fiscal year amounted to ¥59,391 million (compared to ¥58,067 million recorded for the same period of the previous fiscal year); consolidated operating income amounted to ¥3,340 million (compared to ¥1,271 million recorded for the same period of the previous fiscal year), and consolidated ordinary income amounted to ¥3,771

million (compared to ¥1,484 million recorded for the same period of the previous fiscal year). In addition, due to the posting of an extraordinary income of ¥4,505 million in respect of a gain on the sale of fixed assets (real estate). GUNZE's consolidated net income attributable to owners of the parent amounted to ¥5,002 million (compared to ¥222 million recorded for the same period of the previous fiscal year).

As a result of the application of the Accounting Standard for Revenue Recognition and other related standards for the first six months of the current fiscal year, net sales decreased by ¥1,810 million, while the impact on operating income, ordinary income, and net income before income and other taxes was minor.

## **Results by Business Segment**

### **<Functional Solutions>**

In plastic film, packaging films continued to enjoy strong demand related to people spending more time at home. In addition, plastic films for export and industrial applications performed well. Engineering plastics performed strongly supported by a recovery in sales of products for the semiconductor market and office equipment applications. In electronic components, recovery has been delayed due to difficulties in procuring parts caused by global semiconductor shortages and to the impact of postponements in shipping of received orders. Medical materials exhibited a robust performance thanks to the growth of the Chinese market, despite the lingering negative effects of COVID-19 in Japan and Europe.

As a result of the above, the functional solutions business recorded net sales of ¥26,630 million (compared to ¥23,623 million for the same period of the previous fiscal year) and an operating income of ¥3,833 million (compared to ¥1,946 million for the same period of the previous fiscal year).

The application of the Accounting Standard for Revenue Recognition and other related standards caused net sales in this segment to decrease by ¥310 million and operating income to decrease by ¥19 million.

### **<Apparel>**

In the apparel business, overall, in-store sales were impacted by the sluggish market conditions brought on by the state of emergency declared by the government, as well as by unseasonable weather in the summer. By contrast, the e-commerce and mail-order catalog channels performed strongly. In innerwear, women's innerwear, centered on the highly differentiated foundation lines such as innerwear with cups employing bonding technology, enjoyed expanded sales. For legwear, production was adjusted through the shutdown of a factory in response to the considerable decrease in opportunities for

wearing stockings as people refrained from venturing out or attending events following the redeclared state of emergency.

As a result of the above, the apparel business recorded net sales of ¥27,445 million (compared to ¥29,257 million for the same period of the previous fiscal year) and an operating income of ¥763 million (compared to ¥633 million for the same period of the previous fiscal year).

The application of the Accounting Standard for Revenue Recognition and other related standards caused net sales in this segment to decrease by ¥1,409 million and operating income to increase by ¥17 million.

### <Lifestyle Creations>

In the real estate category, the rental property business performed well, while the shopping center business experienced a decrease in the number of visitors caused by shortened business hours and continuing cancellation of events in response to the state of emergency declared by the Japanese government. The sports club business experienced an adverse impact from temporary closures and shortened business hours arising from the redeclaration of the state of emergency and requests from various prefectural governments.

As a result of the above, the lifestyle creation business recorded net sales of ¥5,597 million (compared to ¥5,490 million for the same period of the previous fiscal year) and an operating income of ¥149 million (compared to ¥170 million for the same period of the previous fiscal year).

The application of the Accounting Standard for Revenue Recognition and other related standards caused net sales in this segment to decrease by ¥90 million and operating income to increase by ¥1 million.

## (2) Description of Financial Position

As of September 30, 2021, total assets were ¥160,100 million, an increase of ¥470 million compared to the end of the previous fiscal year. The main components of the increase in total assets included a ¥4,926 million increase in cash and deposits, a ¥2,428 million increase in finished products and goods, and a ¥1,056 million increase in raw materials and supplies. The main components of a decrease were a ¥3,601 million decrease in buildings and structures and a ¥1,307 million decrease in land, both resulting from the transfer of fixed assets in the Maebashi and Tokyo areas, as well as a ¥2,950 million decrease in investments in securities caused mainly by the sale of cross-held shares.

Total liabilities were ¥43,534 million, a decrease of ¥916 million compared to the end of the previous fiscal year. The main components of an increase included a ¥1,887

million increase in accrued income taxes. The main components of the decrease included a ¥2,701 million decrease in long- and short-term debt including commercial paper.

Net assets were ¥116,565 million, an increase of ¥1,387 million compared to the end of the previous fiscal year. The main components of the increase included a net income attributable to the owners of the parent amounting to ¥5,002 million recorded for the period under review, and a ¥926 million increase in foreign currency translation adjustments. The main components of a decrease were dividend payments of ¥2,034 million, ¥1,585 million spent for the acquisition of treasury stock, and a ¥1,220 million decrease in unrealized gain on available-for-sale securities.

#### (Cash Flows)

As of September 30, 2021, cash and cash equivalents were ¥14,643 million, an increase of ¥4,469 million compared to the end of the previous fiscal year. Below is an overview of cash flows and reasons for changes during the first six months of the current fiscal year.

Net cash provided by operating activities during the period under review was ¥3,444 million, an increase of ¥3,298 million compared to the same period of the previous fiscal year. The main components of cash inflows were income before income taxes amounting to ¥7,397 million, depreciation and amortization of ¥3,022 million, and a ¥2,153 million decrease in notes and accounts receivable. The main components of cash outflows included a gain on sale or disposal of fixed assets amounting to ¥4,347 million, and a ¥3,542 million increase in inventories.

Net cash provided by investing activities totaled ¥7,423 million, an increase of ¥5,203 million compared to the same period of the previous fiscal year. The main components of cash inflows included proceeds from the sale of fixed assets amounting to ¥7,819 million, and proceeds from the sale of investment securities amounting to ¥2,341 million. The main components of cash outflows included payments for purchase of fixed assets amounting to ¥2,139 million.

Net cash provided by financing activities decreased by ¥3,301 million compared to the same period of the previous fiscal year. As a result, net cash used in financing activities totaled ¥6,800 million. The main components of cash inflows included a ¥2,910 million increase in short-term debt and commercial paper. The main components of cash outflows were ¥6,080 million spent for the repayment of long-term debt, ¥2,025 million spent for dividend payments, as well as ¥1,585 million spent for the acquisition of treasury stock.



### (3) Description of Consolidated Financial Forecast and Other Future Forecast Information

Due to the state of emergency redeclared by the Japanese government, which was necessitated by the resurgence of COVID-19, demand for the products of the apparel and lifestyle creation businesses has dropped more steeply than had been anticipated. In particular, legwear suffered due to a marked decrease in opportunities for wearing stockings, causing a factory to shut down in the interests of adjusting production. Overseas as well, lockdowns in Vietnam forced Gunze (Vietnam) Co., Ltd., GUNZE's main innerwear factory, to cease operations.\* Due to the above reasons, the GUNZE Group's performance is likely to fall below the previously announced forecast. In view of these factors, GUNZE has revised its full-year forecast for the fiscal year ending March 31, 2022.

\*With the end of the lockdowns, Gunze (Vietnam) Co., Ltd. has been resuming factory operations on a step-by-step basis since October 1.

#### Revised Full-Year Forecast for Fiscal Year Ending March 31, 2022

(April 1, 2021 to March 31, 2022)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	EPS
Previous forecast (A)	¥ millions 135,000	¥ millions 8,000	¥ millions 8,200	¥ millions 5,600	¥ 319.33
Revised forecast (B)	127,000	7,000	7,200	5,600	321.21
Difference (B - A)	(8,000)	(1,000)	(1,000)	—	
Difference (percentage)	(5.9)	(12.5)	(12.2)	—	
(Ref.) Previous fiscal year results (Year ended March 31, 2021)	123,649	4,673	5,094	2,147	120.94

Note: GUNZE has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other related standards effective from the beginning of the first quarter of the current fiscal year. As such, the figures for the previous forecast and revised forecast represent amounts after the application of the said accounting standard and other related standards.

GUNZE has not revised its dividend forecast for the fiscal year ending March 31, 2022, under which it plans to pay a full-year dividend of 140 yen per share, as announced on May 14, 2021.

## 2. Quarterly Consolidated Financial Statements and Main Notes

### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	End of FY2020 (As of Mar. 31, 2021)	End of FY2021 2nd quarter (As of Sept. 30, 2021)
<b>Assets</b>		
Current assets		
Cash and deposits	9,717	14,643
Notes and accounts receivable, trade	27,715	25,991
Finished products and goods	21,094	23,522
Work in process	5,714	6,138
Raw materials and supplies	4,302	5,359
Other current assets	3,564	4,267
Allowance for doubtful accounts	(17)	(5)
Total current assets	72,090	79,917
Fixed assets		
Property, plants and equipment		
Buildings and structures (Net)	39,689	36,088
Machinery, equipment and vehicles (Net)	10,727	10,355
Land	12,173	10,866
Other (Net)	2,332	2,720
Total property, plants and equipment	64,923	60,030
Intangible fixed assets	1,612	1,430
Investments and other assets		
Investments in securities	15,638	12,688
Other assets	5,437	6,101
Allowance for doubtful accounts	(71)	(67)
Total investments and other assets	21,004	18,721
Total fixed assets	87,539	80,183
Total assets	159,629	160,100

(Millions of yen)

	End of FY2020 (As of Mar. 31, 2021)	End of FY2021 2nd quarter (As of Sept. 30, 2021)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable, trade	7,830	8,600
Short-term debt	4,913	5,085
Commercial paper	500	3,600
Current portion of long-term debt	7,301	1,602
Accrued income taxes	397	2,285
Allowance for employees' bonuses	1,436	1,409
Other current liabilities	8,484	8,110
Total current liabilities	30,863	30,694
Long-term liabilities		
Long-term debt	4,581	4,306
Liabilities related to retirement benefits	3,645	3,367
Long-term deposits and guarantee deposits	4,750	4,599
Other long-term liabilities	610	567
Total long-term liabilities	13,587	12,840
Total liabilities	44,451	43,534
Net assets		
Shareholders' equity		
Common stock	26,071	26,071
Capital surplus	6,674	6,677
Retained earnings	84,456	87,495
Treasury stock	(6,904)	(8,433)
Total shareholders' equity	110,298	111,811
Accumulated other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	2,321	1,101
Deferred gain (loss) on hedge	16	-
Revaluation difference on land	(45)	(45)
Foreign currency translation adjustments	389	1,315
Accumulated adjustments related to retirement benefits	575	496
Total accumulated other comprehensive income	3,256	2,867
Stock acquisition rights	158	158
Non-controlling interests	1,465	1,727
Total net assets	115,178	116,565
Total liabilities and net assets	159,629	160,100

## (2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

Consolidated Statements of Income  
(for the six months from April 1 to September 30)

(Millions of yen)

	2nd quarter of FY2020 (Apr. 1, 2020 to Sept. 30, 2020)	2nd quarter of FY2021 (Apr. 1, 2021 to Sept. 30, 2021)
Net sales	58,067	59,391
Cost of sales	40,380	40,062
Gross profit	17,687	19,329
Selling, general and administrative expenses	16,415	15,988
Operating income	1,271	3,340
Non-operating income		
Interest income	20	25
Dividend income	316	234
Rental income	180	142
Exchange gain	-	3
Subsidy income	87	296
Other	81	50
Total non-operating income	686	752
Non-operating expenses		
Interest expenses	70	45
Rental expenses	174	140
Exchange loss	11	-
Other	216	136
Total non-operating expenses	473	321
Ordinary income	1,484	3,771
Extraordinary income		
Gain on sale of fixed assets	1	4,505
Gain on sale of investment securities	1,309	759
Gain on donation of fixed assets	34	-
Total extraordinary income	1,344	5,264
Extraordinary loss		
Loss on sale or disposal of fixed assets	47	157
Loss on sale of investment securities	1,304	102
Impairment loss	-	* <sup>1</sup> 881
Loss arising from COVID-19	* <sup>2</sup> 938	* <sup>2</sup> 276
Other	75	220
Total extraordinary loss	2,366	1,638
Income before income taxes	462	7,397
Income taxes	208	2,339
Net Income	253	5,058
Net income attributable to non-controlling interests	30	55
Net income attributable to owners of the parent	222	5,002

Consolidated Statements of Comprehensive Income  
 (for the six months from April 1 to September 30)

(Millions of yen)

	2nd quarter of FY2020 (Apr. 1, 2020 to Sept. 30, 2020)	2nd quarter of FY2021 (Apr. 1, 2021 to Sept. 30, 2021)
Net income	253	5,058
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	2,498	(1,220)
Deferred gain (loss) on hedge	(60)	(16)
Foreign currency translation adjustments	(327)	997
Adjustments related to retirement benefits	233	(78)
Total other comprehensive income	2,343	(317)
Comprehensive income	2,597	4,740
(Breakdown)		
Comprehensive income attributable to owners of the parent	2,596	4,623
Comprehensive income attributable to non-controlling interests	1	116

### (3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	2nd quarter of FY2020 (Apr. 1, 2020 to Sept. 30, 2020)	2nd quarter of FY2021 (Apr. 1, 2021 to Sept. 30, 2021)
<b>Cash flows from operating activities</b>		
Income before income taxes	462	7,397
Depreciation and amortization	3,120	3,022
Impairment loss	-	881
Amortization of goodwill	66	66
Increase (decrease) in allowance for doubtful accounts	0	(13)
Increase (decrease) in liabilities related to retirement benefits	(3)	(390)
Increase (decrease) in allowance for employees' bonuses	(15)	(32)
Increase (decrease) in provision for loss on guarantees	39	-
Interest and dividend income	(337)	(259)
Interest expenses	70	45
Exchange loss (gain)	(8)	21
Loss (gain) on sale or disposal of fixed assets	46	(4,347)
Loss (gain) on sale or valuation of investments in securities	31	(656)
Loss arising from COVID-19	938	276
Other losses (gains)	(3)	(6)
Decrease (increase) in notes and accounts receivable	1,684	2,153
Decrease (increase) in inventories	(1,984)	(3,542)
Decrease (increase) in other current assets	388	(400)
Increase (decrease) in notes and accounts payable	(2,629)	384
Increase (decrease) in deposits and guarantee deposits	(109)	(210)
Increase (decrease) in other current liabilities	(335)	(303)
Increase (decrease) in other long-term liabilities	(23)	(11)
Subtotal	1,399	4,074
Interest and dividends received	338	259
Interest paid	(70)	(63)
Loss arising from COVID-19 paid	(858)	(256)
Income tax refund (paid)	(663)	(570)
Net cash provided by (used in) operating activities	145	3,444

(Millions of yen)

	2nd quarter of FY2020 (Apr. 1, 2020 to Sept. 30, 2020)	2nd quarter of FY2021 (Apr. 1, 2021 to Sept. 30, 2021)
Cash flows from investing activities		
Payments for purchase of fixed assets	(2,800)	(2,139)
Proceeds from sale of fixed assets	3	7,819
Payments for disposition of fixed assets	(43)	(83)
Payments for acquisition of investment securities	(474)	(519)
Proceeds from sale of investment securities	5,561	2,341
Net decrease (increase) in loans	(28)	6
Other	2	(1)
Net cash provided by (used in) investing activities	2,220	7,423
Cash flows from financing activities		
Net increase (decrease) in short-term debt and commercial paper	(1,065)	2,910
Repayments of long-term debt	(479)	(6,080)
Payments for acquisition of treasury stock	(2)	(1,585)
Proceeds from sale of treasury stock	158	60
Cash dividends paid	(2,034)	(2,025)
Cash dividends paid to holders of non-controlling interests	(18)	(31)
Other	(57)	(48)
Net cash provided by (used in) financing activities	(3,499)	(6,800)
Effect of exchange rate changes on cash & cash equivalents	(32)	402
Net increase (decrease) in cash and cash equivalents	(1,166)	4,469
Cash and cash equivalents at beginning of period	9,267	9,717
Increase (decrease) in cash and cash equivalents due to change in scope of consolidation	-	456
Cash and cash equivalents at end of period	* 8,101	* 14,643



#### **(4) Notes to Quarterly Consolidated Financial Statements**

##### **[Notes Regarding Assumptions of Continuing Operations]**

None applicable.

##### **[Notes in the Event of Significant Changes in Shareholders' Equity]**

None applicable.

##### **[Application of Specific Accounting Practices for Preparing Quarterly Consolidated Financial Statements]**

(Calculation of taxes)

For the current consolidated fiscal year ending March 31, 2022, after the application of tax effect accounting for the earnings before taxes, taxes are calculated by multiplying earnings before taxes posted in the first six months of the current consolidated fiscal year by the reasonably estimated effective tax rate. However, if the calculation of taxes using the estimated effective tax rate would result in a significant loss of rationality, the statutory tax rate will be used instead.

## **[Changes in Accounting Policies]**

(Application of Accounting Standard for Revenue Recognition)

GUNZE has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other related standards effective from the beginning of the first quarter of the current fiscal year. Accordingly, the company recognizes revenue when it satisfies a performance obligation by transferring promised goods or services to a customer. It recognizes as revenue the amount expected to be received upon exchange of said goods or services. Major changes that occur due to the application of this accounting standard are as follows:

### 1. Transactions relating to chargeable subcontracting

As for subcontracting with chargeable components, although sales revenue and cost of sales were previously recorded in gross amounts, the accounting method has been changed to recognize sales revenue and cost of sales in net amounts. Should GUNZE be obligated to purchase the supplied components, the elimination of the components in question is not recognized.

### 2. Revenue recognition for principal and agent transactions

As for the supply of goods or services to a customer, in a transaction in which GUNZE or its consolidated domestic subsidiary acts as an agent, the gross amount to be received from the customer was previously recognized as revenue. This has been changed to recognize revenue based on net amounts, which are the amounts to be received from the customer less the amounts paid to the supplier, subcontractor, etc., of the goods or services.

### 3. Revenue recognition relating to transactions with a right of return

As for sales with a right of return, the accounting method has been changed to recognize sales revenue and cost of sales less those of goods/products expected to be returned, respectively. Considerations for products/goods expected to be returned are recorded under “other current liabilities” as refund liabilities, and assets recognized as the right to repossess the products/goods in question when refund liabilities are settled are recorded under “other current assets” as returned assets.

### 4. Considerations payable to customers

Sales rebates, other companies’ points, and other considerations payable to customers were previously treated as part of selling, general and administrative (SG&A) expenses. The accounting method has been changed to deduct them from transaction prices.

The application of the Accounting Standard for Revenue Recognition and other related standards is in accordance with the transitional treatment set forth in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The aggregate amount of the impact on retroactive application of the new accounting policy prior to the beginning of the first quarter of the current fiscal year has been added to or subtracted from

the retained earnings at the beginning of the first quarter of the current fiscal year, and the new accounting policy has been applied from the balance at the beginning of the period under review; provided, however, that the new accounting policy was not retrospectively applied to contracts where recognitions of nearly all revenue amounts for periods prior to the beginning of the first quarter of the current fiscal year were subject to the previous treatment, by applying the method stipulated in Paragraph 86 of the Accounting Standard for Revenue Recognition. With regard to modifications to contracts made prior to the beginning of the first quarter of the current fiscal year, accounting treatment has been conducted based on the contractual terms existing after all contract modifications were reflected and this cumulative effect has been added to or subtracted from the balance of retained earnings at the beginning of the first quarter of the current fiscal year by applying the method set forth in item (1) of the supplementary proviso of Paragraph 86 of the Accounting Standard for Revenue Recognition.

As a result, for the first six months of the current fiscal year, net sales decreased by ¥1,810 million, with cost of sales decreasing by ¥1,572 million and SG&A expenses decreasing by ¥236 million. Operating income, ordinary income, and net income before income and other taxes remained almost the same. The balance of retained earnings at the beginning of the period under review decreased by ¥149 million.

In accordance with the transitional treatment stipulated in Article 28-15 of the revised “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12, March 31, 2020), the information on a breakdown of revenue generated from contracts made with customers relating to the first six months of the previous fiscal year is not stated.

(Application of Accounting Standard for Fair Value Measurement)

GUNZE has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) and other related standards effective from the beginning of the first quarter of the current fiscal year. As a result, pursuant to transitional measures set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurement and in Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No.10, July 4, 2019), new accounting policies stipulated in the Accounting Standard for Fair Value Measurement and other related standards are applied prospectively. Please note that the application of the Accounting Standard for Fair Value Measurement has no impact on the GUNZE Group’s quarterly consolidated financial statements.

### **[Changes in Accounting Estimates and Restatement after Error Corrections]**

None applicable.

### **[Additional Information]**

(Application of tax effect accounting for transition from the consolidated taxation system to the group tax sharing system)

Regarding the transition to the group tax sharing system established in the “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 8, 2020) and items for which the non-consolidated taxation system has been

reviewed in line with the said transition, GUNZE and some of its domestic subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities according to the tax laws prior to the amendment based on the treatment of Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (Practical Issues Task Force (PITF) No. 39, March 31, 2020) instead of applying the provision of Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018).

(COVID-19 impact on accounting estimates)

There are no significant changes in the assumptions stated in the “Significant Accounting Estimates” section of the GUNZE Group Securities Report for the previous consolidated fiscal year, including with regard to the degree of the spread of COVID-19 infections and the timing for bringing the COVID-19 pandemic under control.

**[Notes regarding Quarterly Consolidated Statements of Income]**

**\*1 Impairment loss**

The Gunze Group posted an impairment loss for the following asset group.

Second quarter of FY2020 (April 1 – September 30, 2020)

None applicable.

Second quarter of FY2021 (April 1 - September 30, 2021)

Location	Application	Asset Group	Amount (¥ millions)
Maebashi, Gunma Prefecture	Commercial facilities	Buildings, structures and others	881
Total			881

Breakdown of impairment loss by asset type (millions of yen)

Buildings and structures	880
Others	0
Total	881

The GUNZE Group divides assets into groups based on the classification employed for the internal management. GUNZE reduced the book value of assets related to the lifestyle creation business for which a decision to sell had been made to the recoverable amount, and recorded an impairment loss of ¥881 million as an extraordinary loss. The recoverable amount for the asset group in question is defined as the net realizable value based on the estimated sales price.

**\*2 Loss arising from COVID-19**

Second quarter of FY2020 (April 1 – September 30, 2020)

The GUNZE Group closed down sports clubs, commercial facilities, stores, and factories that the group operates in response to requests from the national and local governments due to the spread of COVID-19 infections. GUNZE recorded fixed expenses incurred during the period of closures (such as personnel costs, rent, depreciation and amortization) and support for tenants of commercial facilities under “extraordinary losses” as loss arising from COVID-19.

The breakdown of the loss arising from COVID-19 by segment is as follows:

Segment	Amount (¥ millions)	Description
Functional solutions	68	Fixed expenses incurred during closures of factories in Japan and overseas
Apparel	207	Fixed expenses incurred during closures of factories in Japan and overseas and stores
Lifestyle creations	662	Fixed expenses incurred during closures of sports clubs and commercial facilities and support for tenants
Total	938	

Second quarter of FY2021 (April 1 - September 30, 2021)

The GUNZE Group closed down sports clubs, commercial facilities, and stores that the group operates in response to requests from the national and local governments due to the spread of COVID-19 infections. GUNZE recorded fixed expenses incurred during the period of closures (such as personnel costs, rent, depreciation and amortization) under “extraordinary losses” as loss arising from COVID-19.

◦  
 The breakdown of the loss arising from COVID-19 by segment is as follows:

Segment	Amount (¥ millions)	Description
Functional solutions	—	
Apparel	26	Fixed expenses incurred during closures of stores
Lifestyle creations	249	Fixed expenses incurred during closures of sports clubs and commercial facilities
Total	276	

**[Segment Information, etc.]**

Second quarter of FY2020 (Six months ended September 30, 2020)

1. Information on Net Sales and Profit (Loss) of Each Reportable Segment

(Millions of yen)

	Reportable segments				Adjustment (note 1)	Consolidated (note 2)
	Functional solutions	Apparel	Lifestyle creations	Total		
Net sales						
Sales to customers	23,478	29,162	5,426	58,067	—	58,067
Intersegment sales and transfers	144	94	63	302	(302)	—
Total	23,623	29,257	5,490	58,370	(302)	58,067
Segment profit	1,946	633	170	2,750	(1,478)	1,271

Note:

1. The - (minus) ¥1,478 million segment profit adjustment consists of overall costs not allocated to reportable segments.  
Overall costs refer to SG&A expenses not allocated to reportable segments.
2. Segment profit total was adjusted to be consistent with the operating income recorded on the Consolidated Statements of Income.

Second quarter of FY2021 (Six months ended September 30, 2021)

1. Information on Net Sales and Profit (Loss) of Each Reportable Segment

(Millions of yen)

	Reportable segments				Adjustment (note 1)	Consolidated (note 2)
	Functional solutions	Apparel	Lifestyle creations	Total		
Net sales						
Sales to customers	26,502	27,354	5,534	59,391	—	59,391
Intersegment sales and transfers	127	91	63	282	(282)	—
Total	26,630	27,445	5,597	59,673	(282)	59,391
Segment profit	3,833	763	149	4,746	(1,405)	3,340

Note:

1. The - (minus) ¥1,405 million segment profit adjustment consists of overall costs not allocated to reportable segments.  
Overall costs refer to SG&A expenses not allocated to reportable segments.
2. Segment profit total was adjusted to be consistent with the operating income recorded on the Consolidated Statements of Income.

2. Information on Impairment Loss of Fixed Assets, Goodwill, etc. of Each Reportable Segment  
(Significant impairment loss relating to fixed assets)

In the lifestyle creation business segment, an impairment loss was posted along with a decision on the sale of fixed assets. The impairment loss posted for the first six months of the current fiscal year amounted to ¥881 million.

3. Matters relating to the Change of Reportable Segments

As discussed in “Changes in Accounting Policies,” because GUNZE has applied the Accounting Standard for Revenue Recognition and other related standards effective from the beginning of the first quarter of the current fiscal year, the calculation method for the profit (loss) of each business segment has been changed accordingly.

The change of calculation method, compared to the conventional calculation method, has caused net sales for the functional solutions business to decrease by ¥310 million, with the segment profit decreasing by ¥19 million; net sales for the apparel business to decrease by ¥1,409 million, with the segment profit increasing by ¥17 million; and net sales for the lifestyle creation business to decrease by ¥90 million, with the segment profit increasing by ¥1 million.



### 3. Supplementary Materials for Quarterly Financial Results

#### (1) FY2021 2nd Quarter Operating Results (Apr. 1, 2021 to Sept. 30, 2021)

(Millions of yen)

	FY2021 2nd Quarter (Six months ended Sept. 30, 2021)	FY2020 2nd Quarter (Six months ended Sept. 30, 2020)	Change
			<Upper figures in brackets %>
Net Sales	59,391	58,067	— —
Operating Income	3,340	1,271	— —
Ordinary Income	3,771	1,484	— —
Net Income Attributable to Owners of the Parent	5,002	222	— —
Total Assets	160,100	161,113	<(0.6)> (1,012)
Inventories	35,020	34,885	<0.4> 134
Fixed Assets	80,183	88,698	<(9.6)> (8,515)
Net Assets	116,565	109,832	<6.1> 6,733
Financing Income/Expenses	214	266	(51)
Interest/Dividends Received	259	337	(77)
Interest Expenses	(45)	(70)	25
Capital Expenditures	1,505	6,174	(4,669)
Depreciation and Amortization	3,089	3,187	(98)

#### <Overview of Results>

- The functional solutions business embarked on a recovery trend for all its divisions despite the lingering impact of COVID-19.
- The apparel business failed to offset the slump in in-store sales caused by the redeclared state of emergency.
- The lifestyle creation business was heavily impacted by the temporary closures and shortened business hours of shopping centers and sports clubs.

#### <Main extraordinary income/loss>

- Gain on sale of fixed assets: ¥4,500 million  
(Gunze Nihonbashi Building, No. 2 SK Building, etc.)
- Gain on sale of investments in securities: ¥700 million
- Impairment loss (Maebashi commercial facility): (¥800 million)

#### <FY2021 Forecast>

- Due to the redeclared state of emergency in Japan, demand decreased more than had been anticipated. This necessitated an adjustment of legwear production. Moreover, lockdowns in Vietnam caused GUNZE's main innerwear factory to cease operations. In view of these factors, GUNZE has revised its previously announced full-year forecast for fiscal 2021.
- GUNZE has not revised its dividend forecast. The scheduled dividend for fiscal 2021 is ¥140 per share (¥115 per share in fiscal 2020).

#### [Acquisition of treasury stock, etc.]

	Thousands of shares	Amount
Treasury stock acquired	359	¥1,585 million
Treasury stock disposed	13	¥56 million
Treasury stock held at the end of the previous fiscal year	1,604	¥6,904 million
Treasury stock held at the end of the period	1,951	¥8,433 million

\*Treasury stock acquired includes 358 thousand shares purchased at ¥1,581 million as resolved at the Board of Directors meeting.

(2) Results by Business Segment

(Millions of yen)

		FY2021 2nd Quarter		FY2020 2nd Quarter	
		Amount	Weight	Amount	Weight
Net Sales	Functional Solutions	26,630	44.6	23,623	40.5
	Apparel	27,445	46.0	29,257	50.1
	Lifestyle Creations	5,597	9.4	5,490	9.4
	Subtotal	59,673	100.0	58,370	100.0
	Elimination	(282)		(302)	
	Consolidated	59,391		58,067	
Operating Income	Functional Solutions	3,833	80.8	1,946	70.8
	Apparel	763	16.1	633	23.0
	Lifestyle Creations	149	3.1	170	6.2
	Subtotal	4,746	100.0	2,750	100.0
	Elimination	(1,405)		(1,478)	
	Consolidated	3,340		1,271	

(3) Significant Financial Indicators

Item		FY2021 2nd Quarter	FY2020 2nd Quarter	Change
Operating Income to Total Assets Ratio	%	2.1	0.8	—
Ordinary Income to Total Assets Ratio	%	2.4	0.9	—
Operating Income to Net Sales Ratio	%	5.6	2.2	—
Ordinary Income to Net Sales Ratio	%	6.3	2.6	—
Equity Ratio	%	71.6	67.2	4.4
ROE	%	4.4	0.2	—
Earnings per Share	¥	285.63	12.56	—
Diluted Earnings per Share	¥	284.79	12.51	—
Net Assets per Share	¥	6,612.62	6,090.99	521.63

**(4) Cash Flows**

(Millions of yen)

Cash Flow Activity	FY2021 2nd Quarter	FY2020 2nd Quarter	Change	Breakdown of Major Components
Operating Activities	3,444	145	3,298	Income before income taxes: 7,397; Depreciation and amortization: 3,022; Gain on sale or disposal of fixed assets: (4,347); Increase in inventories: (3,542)
Investing Activities	7,423	2,220	5,203	Sale of fixed assets: 7,819; Sale of investment securities: 2,341; Purchase of fixed assets: (2,139)
Financing Activities	(6,800)	(3,499)	(3,301)	Increase in short-term debt and commercial paper: 2,910; Repayment of long-term debt: (6,080); Dividend payment: (2,025)
Foreign Currency Translation Adjustments	402	(32)	435	
Increase (Decrease) in Cash and Cash Equivalents	4,469	(1,166)	5,636	
Increase (Decrease) due to Change in Scope of Consolidation	456	—	456	
Cash and Cash Equivalents - End of Period	14,643	8,101	6,541	

**(5) Capital Expenditures and Depreciation and Amortization by Segment**

(Millions of yen)

Item	FY2021 Plan			FY2020		Y-over-Y Change
	Amount	Weight	2nd Quarter (cumulative)	Amount	Weight	
Capital Expenditures * Incl. intangible fixed assets	[International]	[400]		[143]	[3,219]	
	Functional Solutions	2,700	40.9	744	6,386	81.4
	[International]	[300]		[140]	[295]	
	Apparel	1,800	27.3	507	814	10.4
	Lifestyle Creations	900	13.6	186	414	5.3
Corporate	1,200	18.2	67	230	2.9	970
	[International]	[700]		[284]	[3,514]	
Total	6,600	100.0	1,505	7,845	100.0	(1,245)
Depreciation and Amortization * Incl. amortization of goodwill	Functional Solutions	2,700	42.2	1,304	2,575	40.9
	Apparel	1,400	21.9	628	1,275	20.3
	Lifestyle Creations	1,900	29.7	855	1,962	31.2
	Corporate	400	6.2	302	476	7.6
	Total	6,400	100.0	3,089	6,289	100.0

**[Main Investment Plans for FY2021]**

- Plastic film production equipment: ¥1,200 million
- Innerwear production equipment: ¥1,100 million

**(6) FY2021 Forecast**

(Millions of yen)

	Revised Forecast	Previous Forecast	Increase (Decrease)	Y-over-Y Change
Net Sales	127,000	135,000	(8,000)	123,649
Operating Income	7,000	8,000	(1,000)	4,673
Ordinary Income	7,200	8,200	(1,000)	5,094
Net income attributable to owners of the parent	5,600	5,600	—	2,147

**(7) FY2021 Forecast by Segment**

(Millions of yen)

		Revised Forecast		Previous Forecast		Increase (Decrease)	
		Amount	Weight	Amount	Weight	Amount	(%)
Net Sales	Functional Solutions	56,100	44.0	56,100	41.3	—	—
	Apparel	59,400	46.5	66,000	48.7	(6,600)	(10.0)
	Lifestyle Creations	12,100	9.5	13,500	10.0	(1,400)	(10.4)
	Subtotal	127,600	100.0	135,600	100.0	(8,000)	(5.9)
	Eliminations	(600)		(600)		—	—
	Consolidated	127,000		135,000		(8,000)	(5.9)
Operating Income	Functional Solutions	7,700	76.2	7,200	63.7	500	6.9
	Apparel	1,500	14.9	3,200	28.3	(1,700)	(53.1)
	Lifestyle Creations	900	8.9	900	8.0	—	—
	Subtotal	10,100	100.0	11,300	100.0	(1,200)	(10.6)
	Elimination/Corporate	(3,100)		(3,300)		200	—
	Consolidated	7,000		8,000		(1,000)	(12.5)

		Y-over-Y Change	
		Amount	Weight
Net Sales	Functional Solution	49,673	40.0
	Apparel	62,640	50.4
	Lifestyle Creations	11,976	9.6
	Subtotal	124,290	100.0
	Eliminations	(641)	
	Consolidated	123,649	
Operating Income	Functional Solutions	4,852	63.5
	Apparel	2,306	30.2
	Lifestyle Creations	482	6.3
	Subtotal	7,641	100
	Elimination/Corporate	(2,968)	
	Consolidated	4,673	

Note: GUNZE has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other related standards effective from the beginning of the first quarter of the current fiscal year. Because the accounting treatment for revenue for the period under review is different from that used for the same period of the previous fiscal year, year-over-year increases/decreases in amounts and percentages for the management indicators relating to net sales, operating income, ordinary income, and net income attributable to owners of the parent are not provided.